



Volunteer Services – KVI

Fiscal Year 2013

CITY OF KILLEEN

A Report to the City
of Killeen Audit
Committee

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Report Summary

Killeen Volunteers Inc. (KVI) is a separate organization from the City of Killeen, but receives most of its contributions from the City. City staff is also heavily involved in maintaining the books and records of KVI; therefore, this audit was conducted to determine whether the books and records are materially accurate and free of material misstatement. The audit revealed multiple discrepancies between the bank balance and the Quickbooks balance of available KVI funds. Additionally, there were procedures in place that allowed for greater risk in safeguarding KVI's assets, such as the use of signature stamps and the lack of a monthly bank reconciliation process.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT STAFF

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AUDIT REPORT HIGHLIGHTS

Why This Audit Was Conducted

This audit was conducted due to a change in KVI's Treasurer elect. Volunteer Services requested the audit in order to determine the state of the books and records before passing them along to the newly elected Treasurer.

What Was Recommended

The major recommendations involve correcting the discrepancies noted in the audit, and completing bank reconciliations monthly. Additionally, expenses should be adequately supported and signature stamps should only be used on rare occasions when unavoidable.

Mayor and Council,

I am pleased to present this audit on the Treasury of Killeen Volunteers, Inc. (KVI).

BACKGROUND

Volunteer Services is a division of the Community Services Department of the City of Killeen. This division is heavily involved in maintaining the books and records of KVI, a separate entity from the City. Since there has been a change in KVI's Treasurer elect, Volunteer Services has asked that an audit be completed to ensure that the books and records are in order before passing them along to the newly elected Treasurer.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether Volunteer Services has adequate controls in place to safeguard KVI's assets and to obtain reasonable assurance that the books and records are materially accurate and free of material misstatement. The audit scope included KVI activity for the period October 2012 through September 2013.

WHAT WAS FOUND

The audit revealed multiple discrepancies between the bank activity and Quickbooks, totaling \$38,852.66 during FY2013. The bank balance at September 30, 2013 was \$38,885.09 more than the Quickbooks available balance. It was discovered that bank reconciliations are not completed, reconciling the bank balance to Quickbooks. Additionally, signature stamps are much more widely used for disbursements than is deemed acceptable.

I appreciate the cooperation and assistance I received from the Volunteer Services Division staff during this audit.

A handwritten signature in black ink that reads "Amanda R. Wallace".

Amanda R. Wallace, City Auditor

BACKGROUND

Volunteer Services is a division of the Community Services Department in the City of Killeen organizational structure. It is responsible for organizing and staffing the community programs that are planned for a public purpose for the City of Killeen. These community programs are funded by Killeen Volunteers, Inc. (KVI), a separate entity from the City, but still very much involved with the City. This organization is a nonprofit corporation, organized under the Texas Non-Profit Corporation Act. The Board of Directors is appointed by the City Council of the City of Killeen, which also provides for approximately 83% of the funding received by KVI.

KVI is made up of 4 committees in addition to the mother Corporation, which include Keep Killeen Beautiful (KKB), Celebrate Killeen (CKC), Killeen Volunteer Corps (KVC), and Youth Advisory Commission (YAC). Each of these committees has a specific purpose and mission with regard to helping the community. These purposes range from beautification matters to holiday season initiatives and the encouragement of positive growth and development of Killeen's youth. In order to accomplish all of the different KVI missions, volunteers are needed from the community.

The City of Killeen Volunteer Services staff is responsible for accounting for KVI's activity to include recording all revenues, expenses, assets, and liabilities in QuickBooks as well as safeguarding KVI's checkbook. The Treasurer for KVI is required by the Bylaws to review the financial books and records of the Corporation, reconcile the monthly bank statements with the checkbook and assist with the yearly budget process. Since there has been a change in the Treasurer elect, Volunteer Services has asked that an audit be completed in order to ensure that the books and records are in order before passing them along to the newly elected Treasurer.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Volunteer Services – KVI Audit was conducted in order to ensure that the books and records are accurate and free of material misstatement. This audit was also included in the FY2014 Audit Plan, as presented to the City Council and the Audit Committee.

Objective

The objective of the audit was to determine whether Volunteer Services has adequate controls in place to safeguard KVI's assets, and to obtain reasonable assurance that the books and records are materially accurate and free of material misstatement.

Scope

The audit scope included KVI activity for the period October 2012 through September 2013.

Methodology

To accomplish the audit objective, the following steps were performed:

- Conducted interviews with Volunteer Services staff and obtained information on policies and procedures as well as staff responsibilities.
- Obtained and tested data pertaining to KVI's books and records.
- Analyzed supporting documentation to determine whether the policies and procedures were adhered to.
- Analyzed policies and procedures to determine effectiveness.
- Considered fraud, waste, and abuse as related to the audit objective.

AUDIT RESULTS

A sample of three months of bank activity was selected for testing to determine reasonableness and appropriateness and that all transactions recorded by the bank were also recorded in Quickbooks. While testing the sampled activity, it was determined that there were multiple discrepancies (23% discrepancy rate) between the disbursements that cleared the bank and Quickbooks. Because of the high discrepancy rate, the testing was expanded to include all deductions from the bank account during FY2013. Each deduction was traced to Quickbooks and reviewed to determine if there was any unauthorized activity and to determine the total difference between the bank activity and activity recorded in Quickbooks.

In testing expenses for reasonableness and proper approvals, 40 disbursements were reviewed. Of the 40 disbursements, 9 did not have adequate documentation to support the transaction. Revenue testing also revealed discrepancies between Quickbooks and the revenue source.

The discrepancies discovered in the audit have caused the monthly financial reports to be inaccurate. It is of the utmost importance for the financial books and records to be reported accurately and timely. The audit revealed multiple discrepancies which will be discussed in the following findings, but did not detect fraudulent activity. The following findings describe the situations that were noted in the audit to be unsatisfactory.

Finding 1: Bank reconciliations are not performed properly.

There were hand-written reconciliations attached to the checkbook for some months of the fiscal year that reconciled the bank balance according to the bank statement to the bank balance according to the checkbook. The Quickbooks activity was not part of the reconciliation. It is imperative that the bank activity be reconciled to Quickbooks on a monthly basis in order to ensure that all transactions are accurately recorded and to detect any unauthorized activity in a timely manner. Each monthly reconciliation should be properly documented and retained with KVI's records.

Finding 2: A contract concerning the City of Killeen was signed by someone other than the City Manager

In testing expenses, a contract between the City of Killeen and the vendor for a KVI function was signed by someone other than the City Manager. The City Manager is the only individual authorized to execute contracts on behalf of the City of Killeen. Additionally, the contract in question, since it was for a KVI event, should not have had the City of Killeen as a party to the contract, but should have had KVI as the other party.

Finding 3: 9 out of 40 tested expenses did not have adequate supporting documentation.

A sample of 40 expenses was reviewed to determine reasonableness and whether the appropriate documentation was retained to support each transaction. Of the 40 sampled expenses, 9 of them either lacked adequate supporting documentation or were not entered correctly into Quickbooks. Fraud, waste, or abuse is not suspected, but in order to deter this sort of behavior and show good stewardship of the non-profit's funds, it is imperative that all expenses are supported appropriately and that the proper approvals are documented.

Finding 4: Signature stamps are widely used for disbursements.

Testing of the bank activity revealed that the majority of the checks issued in payment for services were not physically signed, but stamped with a signature stamp instead. This is a significant control risk in that the duties are not properly segregated, which could easily allow for mishandling of KVI's funds. The signature stamps should only be used on rare occasions when there is an emergency constituting quick payment and the bank signatories are not available to physically sign the check.

Finding 5: 57 transactions were recorded inaccurately in Quickbooks.

Initial testing of a sample of bank activity revealed a 23% discrepancy rate; therefore, this testing was expanded to include all deductions from the bank account during FY2013. The expanded testing for all deductions revealed a 22% discrepancy rate. In total, there were 57 transactions that were either not recorded at all in Quickbooks, or were recorded incorrectly. The total discrepancy between the bank activity and Quickbooks during FY2013 is \$13,852.66. This has caused the available funds according to Quickbooks to be overstated by this amount, which has resulted in inaccurate information being presented to KVI's Board of Directors throughout the fiscal year. It is imperative that all KVI financial activity be recorded accurately and timely in Quickbooks. Monthly bank reconciliations between the bank activity and Quickbooks would have revealed these differences in a timely manner.

Finding 6: Revenues for FY2013 were overstated in Quickbooks.

In addition to the overstatement as noted in Finding 5, the contribution received from the City of Killeen was recorded in Quickbooks for an amount \$25,000 more than the actual contribution. This has further overstated the available funds according to Quickbooks. The total overstatement during FY2013 is \$38,852.66. These errors should be corrected in Quickbooks as soon as possible. After these adjustments are made to account for these discrepancies, the bank balance according to Quickbooks is \$38,885.09 less than the bank balance according to the bank statements. This difference has been carried forward and growing for years due to such errors as noted above. A qualified bookkeeper can help KVI in correcting this discrepancy, which will allow the corporation to move forward with an accurate balance in Quickbooks, which reconciles to the bank.

RECOMMENDATIONS

The recommendations listed below are a result of the audit effort and are subject to the limitation of the scope of the audit. I believe that these recommendations provide reasonable approaches to help resolve the issues identified. I also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches, and I encourage them to do so when providing their responses to the recommendations. As such, I strongly recommend the following:

- 1. Bank reconciliations should be completed monthly and formally documented, reconciling the bank activity to Quickbooks.**
- 2. Contracts regarding KVI functions should be written between KVI and the vendor. The City of Killeen should not be a party to these contracts. If the City should become a party to a contract, only the City Manager is authorized to execute contracts on behalf of the City.**
- 3. Ensure that all expenses are accompanied with adequate supporting documentation.**
- 4. Signature stamps should only be used on the rare occasion of an emergency, constituting quick payment by check, in which case the bank signatories are not available to sign the check.**
- 5. Ensure that all disbursements are entered accurately and timely in Quickbooks and that bank reconciliations are completed monthly.**
- 6. Correct the overstated contribution in Quickbooks and enter the expenditures that were noted in Finding 5 as having not been recorded in Quickbooks. After these are corrected, the Quickbooks balance should be adjusted to match the bank balance. A qualified bookkeeper can help make these adjustments and ensure that all activity is accounted for appropriately in Quickbooks.**

See Appendix A for Management's Response to each recommendation.

MANAGEMENT RESPONSE



Memorandum

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To: Amanda Wallace, City Auditor
Via: Glenn Morrison, City Manager *fm*
Via: John Sutton, Assistant City Manager—External Services *JWS*
From: Wilfred Brewster, Director of Volunteer Services
Date: December 2, 2013

Subject: Killeen Volunteers, Inc. (KVI) City Audit

1. This memorandum acknowledges the receipt of the FY 2013 Audit Report of KVI funds done by the City Auditor, Amanda R. Wallace. It will also address the finding and will share what actions have been taken to correct them.

2. Six findings were listed and the following is a list of the corrections:

a. Finding 1: Bank reconciliations are not performed properly:

KVI treasurer will continue to perform the monthly reconciliation of the bank statements with the checkbook. They will also add the reconciliation of the QuickBooks' statements and balances to this process. This will be added to the Standard Operating Procedures for KVI's Financial Management. After a complete review of our QuickBooks statements by our new auditor, formal procedures will be done to reconcile its balance and difference with the bank statement.

b. Finding 2: A contract concerning the City of Killeen was signed by someone other than the City Manager:

One Purchase Agreement for a Step Team Competition was inadvertently signed by the Director. All contracts and purchase agreements will be in the name of the non-profit (KVI).

c. Finding 3: 9 out of 40 tested expenses did not have adequate supporting documentation:

To ensure that all expenses are supported with the proper and required documentation a new review process will require that an inspection of all monthly vouchers will be done by one KVI Board member and a formal report of their findings be given to the Director and Board on a monthly basis. The Director and Secretary will also review all vouchers to ensure that they are properly supported before being expensed.

d. Finding 4: Signature stamps are widely used for disbursements:

Signature stamps have been removed and only authorized signatures will be done on checks.

e. Findings 5: 57 transactions were recorded inaccurately in QuickBooks:

Corrective actions were done to correct the QuickBooks' inputs and to address the discrepancy between the bank and QuickBooks. A new procedure to review and inspect monthly activities will be initiated to ensure accuracy of the inputs and activities. See Finding 1.

f. Findings 6: Revenues for FY2013 were overstated in QuickBooks:

The beginning balances to QuickBooks were corrected to reflect the city's grant and not the request. A qualified bookkeeper with Lillie Aguero & Associates Tax & Bookkeeping Services is helping us to correct the discrepancy so that there can be agreement between future balances with QuickBooks and the bank.